

Message Text

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ACTION NEA-12

INFO OCT-01 EA-11 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 DODE-00 EB-11 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SPC-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01

USIA-15 IGA-02 DRC-01 (ISO) W
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TO SECSTATE WASHDC 508

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INFO AMEMBASSY SINGAPORE

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AMCONSUL CALCUTTA

AMCONSUL MADRAS

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E.O. 11652: N/A

TAGS: BEXP, IN

SUBJECT: INDIA'S POWER CRISIS: POTENTIAL TRADE OPPORTUNITIES
FOR US SUPPLIERS?

PASS AID

SUMMARY: INDIA'S CURRENT POWER SHORTFALL IS THE PRODUCT OF
INADEQUATE COAL SUPPLIES, POOR MAINTENANCE, SCANTY WINTER RAINS,
AND DELAY IN COMMISSIONING OF NEW PLANTS. ALTHOUGH DOMESTIC
PRODUCERS CLAIM THEY CAN MEET INDIA'S FUTURE POWER EQUIPMENT
NEEDS, SIMILAR CONSTRAINTS WILL PROBABLY HAMPER FULFILLMENT
OF FIFTH PLAN TARGETS. THERE IS A POSSIBILITY THAT THE GOI
WILL, IN AN ATTEMPT TO BREAK THE VICIOUS CIRCLE CREATED BY
POWER CUTS WHICH ARE HURTING INDUSTRIAL PRODUCTION AND THEREFORE
INDIA'S ATTEMPTS TO INCREASE POWER CAPACITY, REVERSE THE BAN
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ON IMPORT OF GENERATING EQUIPMENT IN ORDER TO TAKE ADVANTAGE

OF AN ATTRACTIVE OFFER. ACTION REQUESTED: PLEASE CANVAS INDUSTRY AND PROVIDE DELIVERY PERIODS AND BEST POSSIBLE FINANCING PACKAGES FOR TURBINE SETS AND COMPLETE THERMAL POWER STATIONS. END SUMMARY.

1. THIS IS THE FIRST IN A SERIES OF MESSAGES WHICH WILL ATTEMPT TO IDENTIFY EXPORT OPPORTUNITIES FOR US SUPPLIERS OF POWER GENERATION, DISTRIBUTION, AND TRANSMISSION EQUIPMENT ARISING OUT OF INDIA'S CURRENT POWER SHORTAGE. THE MESSAGES WILL SERVE TO UPDATE THE NARRATIVE PORTION OF THE MARKET RESEARCH REPORT ON POWER EQUIPMENT WHICH WAS SUBMITTED IN JULY 1973.

2. THIS YEAR'S PRE-MONSOON POWER CRISIS WILL BE WORSE THAN LAST YEAR. THE CURRENT SHORTFALL IS ESTIMATED AT 5,000 MW. TOTAL ELECTRICITY GENERATED IN IFY 1973-4 WAS AT OR BELOW THE LEVELS OF THE PREVIOUS YEAR. ONE PRESS EDITORIAL ESTIMATES 1973 PRODUCTION LOSSES DUE TO POWER CUTS AT DOLS 1.5 BILLION. WORST AFFECTED AREAS ARE NORTHERN AND EASTERN INDIA (HARYANA, PUNJAB, UTTAR PRADESH, WEST BENGAL) AND THE SOUTH (ANDHRA PRADESH, KARNATAKA, AND TAMIL NADU). LOAD SHEDDING AND OBLIGATION KPECUTS HAVE STARTED MUCH EARLIER THIS YEAR. IN UTTAR PRADESH LARGE INDUSTRIAL CONSUMERS SUCH AS ELECTRIC ARC FURNACES HAVE BEEN CUT 100 PERCENT. WEST BENGAL HAS JUST IMPOSED A 25 PERCENT CUT, AND TAMIL NADU A 20 PERCENT CUT. POWER TO THE IMPORTANT INDUSTRIAL AREA NORTH OF DELHI HAS BEEN REDUCED DRASTICALLY IN ORDER TO KEEP IRRIGATION PUMPS AND TUBEWELLS RUNNING. THE BASIC CAUSES OF THE SHORTFALL ARE FAILURE TO KEEP EXISTING STATIONS WORKING AT FULL CAPACITY AND INABILITY TO COMPLETE NEW PROJECTS IN A REASONABLE AMOUNT OF TIME. MOST GOI AND STATE GOVERNMENT OFFICIALS AGREE ON THE PRIORITIES WHICH MUST BE FOLLOWED IF THE SHORTFALL IS TO BE EASED:

A. RESTORE THE STATIONS TO OPTIMAL OPERATING CAPACITY --

THE MAJOR CAUSE OF THE CURRENT RASH OF BREAKDOWNS AT THERMAL STATIONS IS POOR QUALITY COAL AND POOR MAINTENANCE. INADEQUATE SUPPLIES OF COAL RESULTING FROM INEFFICIENCY IN THE RAILWAYS ALSO REDUCED GENERATION, AND ACTUALLY FORCED SOME STATIONS IN UTTAR PRADESH AND WEST BENGAL TO TEMPORARILY SHUT DOWN.

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B. SPEED UP COMPLETION OF PLANTS UNDER CONSTRUCTION --

THE CENTRAL WATER AND POWER COMMISSION HAS RESPONSIBILITY FOR 30 POWER PROJECTS BEING CARRIED OUT SIMULTANEOUSLY THROUGHOUT THE COUNTRY. COORDINATING THESE PROJECTS IS MORE THAN THEY CAN HANDLE AND THEY ARE LOOKING FOR HELP FROM AN OUTSIDE ENGINEERING CONSULTANT.

C. REDUCE LOSSES IN TRANSMISSION -- THESE REACH 30 PERCENT IN SOME AREAS. IMPORTED EQUIPMENT AND KNOW-HOW WILL BE REQUIRED TO IMPROVE THE SITUATION.

3. IT IS IMPORTANT TO NOTE THAT ALTHOUGH THE POWR SHORTFALL HAS WIDENED APPRECIABLY IN THE LAST 12 MONTHS, THE POSITION OF THE GOI CONCERNING IMPORTS, ESPECIALLY OF LARGE SIZE THERMAL GENERATING UNITS, HAS HARDENED. THIS IS PARTLY A CONSEQUENCE OF THE SERIOUS THREAT TO INDIA'S FOREIGN EXCHANGE RESERVES BROUGHT ABOUT BY SHARPLY RISING COSTS OF FOOD, CRUDE OIL, AND INDUSTRIAL RAW MATERIALS AND PARTLY THE RESULT OF A CONCENTRATED CAMPAIGN BY LOCAL POWER EQUIPMENT PRODUCERS TO DEMONSTRATE THAT THEY CAN FILL THE GAP WITHOUT RESORTING TO IMPORTS. THE POTENTIAL FOREIGN EXCHANGE CONSTRAINTS ARE REAL. INDIA'S FY 1974-5 IMPORT POLICY WHICH WILL BE ANNOUNCED ON APRIL 1 IS LIKELY TO BE THE MOST RESTRICTIVE IN THE COUNTRY'S HISTORY. CUTS IN CRUDE OIL AND FERTILIZER IMPORTS, WHICH HAVE A HIGHER PRIORITY THAN POWER EQUIPMENT, HAVE ALREADY BEEN ANNOUNCED.

4. THE ASSERTION BY THE LARGE PUBLIC SECTOR POWER EQUIPMENT MANUFACTURERS, BHARAT HEAVY ELECTRICALS (BHEL) AND HEAVY ELECTRICALS INDIA LTD. (HEIL) (NOW MERGED) THAT THE CURRENT SHORTFALL AS WELL AS THE FIFTH PLAN TARGETS CAN BE MET FROM LOCAL PRODUCTION NOW SEEMS OVERLY OPTIMISTIC. THERE WERE SEVERAL REASONS JUSTIFYING THIS OPTIMISM EARLIER: FIRST A GOOD MONSOON LAST SUMMER FILLED RESERVOIRS AND GAVE PROMISE OF AN OPTIMAL USE OF INDIA'S HYDRO-ELECTRIC GENERATING FACILITIES. PRESSURE FOR IMPORTS TO MEET THE SHORTFALL DIMINISHED. THIS PROMISE TURNED OUT TO BE SHORT LIVED WHEN THE WINTER RAINS FAILED AND DRAWDOWN OF WATER FOR IRRIGATION WAS AND CONTINUES TO BE VERY HEAVY. SECOND, BOTH BHEL AND HEIL IMPROVED THE EFFICIENCY OF THEIR LIMITED OFFICIAL USE

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OPERATIONS, REMOVED SOME PRODUCTION BOTTLENECKS AND REPORTED PROFITABLE OPERATIONS FOR THE FIRST TIME IN 1972-3. THE FIRST LOCALLY MANUFACTURED 200 MW TURBINE WAS DELIVERED LAST YEAR AND IT IS NOW EXPECTED THAT FOUR SUCH UNITS WILL BE PRODUCED ANNUALLY.

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